HOUSING:

CALIFORNIA'S FOUNDATION FOR ECONOMIC GROWTH

Executive Summary

When opportunity knocks, let it be at California's door.

While California has begun a resurgence from the recession, the housing industry has not recovered so quickly. Although home sales seem to be picking up, California has not resolved the many issues that have put a damper on housing construction and could close the door on a full, robust and sustained economic recovery.

Historically, the housing industry has led the state's economic recoveries. But this time a combination of factors have held back the recovery for housing in California: limitations on growth, an inadequate supply of a variety of housing types, lowered affordability caused by excessive fees and a lengthy approval process, and unaddressed long-term infrastructure needs.

By encumbering the housing industry, we not only limit construction related growth, but also hinder economic development efforts to bring jobs to California.

Government operates as a system of checks and balances — monitoring the impact of various conditions on the people and their environment. Sometimes the pendulum swings too far one way or the other and adjustments have to be made. It's time California reaffirms that the housing industry — and the end product, homes — benefit all California residents and industries. Recognizing that adequate and affordable housing options are essential to providing the quality of life and job opportunities we want for California, we must commit to look at each regulatory proposal, each fee, each additional process that may cost time and money — to determine its impact on providing our housing choices.

We need to develop partnerships that identify and offer solutions to resolve critical issues of balancing infrastructure and cost, environment and affordability, tradition and innovation.

The purpose of this report is multi-faceted: to educate about the far-reaching benefits of housing on the economy; to discuss the conditions which have slowed housing's recovery; and to consider methods to improve the state of housing in California.

The findings and principles which follow will serve as the basis for discussion among the housing industry, local government, taxpayers groups and others concerned about making the American Dream a reality for more Californians.

Finding 1: Housing is a major component of the California economy, both as an income producing sector and a principal factor in economic development.

In 1994, housing construction generated over $16.8 billion in direct expenditures to the State economy.

Company executives strongly factor the cost of housing when looking to site operations. Housing is not only central to employees' quality of life, but high housing costs are passed on to businesses as higher wages.

Finding 2: California's housing supply is inadequate relative to demand and too expensive for too many residents.

California's new housing production in the 1990s is the lowest in post World War II history. The shortage of housing supply has been accumulating since the late 1970s.

The availability and affordability of housing directly affects the ability of communities to retain and attract business and industry.

Finding 3: Onerous and unnecessary regulations impede the development of an adequate and affordable supply of housing for California.

Communities need to recognize the benefit of housing to the local economy. Some 50 cities and counties impose direct limits on the number of housing units that can be approved annually, increasing costs.

Excessive regulation adds to the complexity and uncertainty of the approval process, which can delay development, or worse, actually render development economically infeasible.

Finding 4: California needs to provide adequate infrastructure for future housing developments and to improve the quality of life for all Californians.

Communities face difficult decisions trying to balance needs for infrastructure with increased costs that make housing less affordable.

Infrastructure costs must be fairly allocated so that new development does not bear a disproportionate burden.

Finding 5: Too many Californians are locked out of the American Dream of homeownership.

California has one of the lowest homeownership rates of any state in the country — only 56 percent of all housing is owner occupied, compared to a national average of 65.6 percent.

Homeownership gives people a stake in the community and makes neighborhoods more stable and better maintained.

Concerned Californians must begin to develop a new set of housing priorities and policies to open wider California's door to economic expansion and prosperity.

Finding 1:

Housing is a major component of the California economy, both as an income producing sector and a principal factor in economic development.

Housing Is the Foundation of the California Economy

The impact of housing on the California economy and on the strength of its communities is far-reaching.[1]

The contribution of housing to the economy generally focuses on new construction.

However, the impact of housing on the State's economy goes well beyond the construction and sale of new homes. In this expanded role in the State's economy, housing construction precipitates a series of transactions and business responses that have a ripple effect on the State's economy. Economists refer to this as a multiplier and have quantified multipliers for many responses to the demand for housing. Housing construction initiates a four-step process of economic events, with a "flow of income" created at each step:

- The purchase of materials to construct housing.
- Labor, professional services, and indirect inputs into the production of the unit.
- The purchase of financing, insurance, and other professional services involved in the transaction.
- An extensive shopping list of all household items required to transform a newly purchased house into a home.

The contribution of the housing construction industry does not end with the direct construction-related generation of income. Construction spending initiates an "economic multiplier" cycle as construction workers and materials suppliers spend their income, creating additional expenditures.

The personal income generated by the housing construction industry in California was more than $13.7 billion in 1994. An additional $12.3 billion was generated by the household amenities and maintenance sectors of the housing industry.

The total impact of new housing construction on the statewide economy can be measured in terms of total industry output — the valuation of goods and services generated by the direct expenditures in the housing construction industry.

Economic estimates of the direct impacts of the new housing construction industry place the 1994 contribution at $16.8 billion.

For every dollar directly spent on housing construction, on average, $1.593 additional indirect dollars are generated in other economic sectors. The total direct and indirect impact is 2.593 times the initial direct expenditure. The total impact on the California economy in 1994 was estimated to be $43.5 billion, approximately $25.7 billion above the amount directly contributed by the industry.

The contribution of the housing industry, however, is greater than just the expenditures on new housing construction, because ownership creates ongoing consumer demands.

During 1994, approximately $32.6 billion was spent on the housing-related sectors. These sectors include home furnishings, floor coverings, appliances, and gardening supplies. An additional $84.5 billion was spent on the shelter component of housing expenditures. The total estimate of non-construction housing-related expenditures exceeded $117 billion.

California Revenue Generated By New Housing Construction

Direct Expenditures for Housing Construction	$16.8 billion
Indirect Effects on Supplier and Service Sectors	$26.7 billion
Home Maintenance	$32.6 billion
Rent and Mortgage Expenditures	$84.6 billion
Total Housing	**$133.9 billion**

To put this data into a comparative perspective, the housing sector is compared below to other economic sectors, using the personal income data from the U.S. Department of Commerce for 1994 (the latest available).

High Tech Manufacturing	$20 billion
Housing Construction	**$13.7 billion**
Agriculture	$7.27 billion
Military	$6.6 billion

Source: Regional Economic Information System, U.S. Department of Commerce, Bureau of Economic Analysis, 1994.

For Business, Housing Makes a Community Feel Like Home

The important role of housing in the economy does not end at its contribution as an income producing sector. Housing's less tangible, but perhaps more critical, place in California's economic picture results from the importance it plays in economic development.

Housing is increasingly becoming an economic development factor, as important in the retention and attraction of employment as the traditional materials, labor, transportation, and market orientations. If the State is not competitive in providing housing for its workers, its employers will locate elsewhere, or lose market share to firms located in more competitive locations, leaving California without the jobs its population needs.

Too often, housing availability and cost factors are not integrated into economic development policy. Housing availability and costs become as much a factor in economic development decisions as State and local taxes, workers compensation, and other business factors. In some locations, better housing availability can do as much for the ability to attract and retain business as economic incentive programs or public subsidies for manufacturing firms.

Business firms are increasingly seeing the availability and cost of housing as a major business locational factor. The availability, quality, and cost of housing affects business firms in several ways:

- Executives, managers, and technical experts within a firm play a key role in location decisions, and are very strongly influenced by the quality of housing and communities.
- The ability of a firm to attract and retain a highly productive labor force is a major factor in locating new businesses. Firms now recognize that housing availability and cost play a major role in employee satisfaction and retention.
- Housing costs affect the wage and salary expectations of employees at all levels. Employers now factor housing costs as a direct cost of wages, and thereby, production.
- The term "quality of life" is included as a criterion in almost all site selection processes. While the quality of life definition encompasses a wide variety of community variables such as recreation, lifestyle, and other amenities, definitions of quality of life always include some indicators of housing quality and affordability.
- Productivity and satisfaction of workers is negatively impacted if employees have to drive long distances to find affordable housing.

An example of how employers approach business expansion decisions is seen in Hewlett Packard's published list of its most important site selection criteria. The five key components include: overall quality of life; quality of K-12 school systems; cost of housing; availability of executive housing; and recreation and leisure activities.[2]

A lower cost of living for employees, particularly housing costs, means lower wage rates for employers. In 1993, the Intel Corporation identified Arizona and New Mexico as prime locations for expansion and relocation. They chose this region because the areas offered an affordable cost of living (primarily determined by housing cost), uncongested transportation systems, and room for future growth.

As the examples of Intel and Hewlett Packard illustrate, increased competition for labor in highly technical fields have made lifestyle and cost of living issues a means of attracting employees. More than its value in attraction and retention of employees, these lower costs can, and will, be transferred to the employer in the form of lower equilibrium wage rates.

Ten principles to support housing's role as the foundation of California's economy

1. *Ensure an adequate supply of housing necessary for job retention and expansion.*

2. *Actively promote the benefits of the housing industry to the State and local economies.*

3. *Develop programs that highlight the benefits of increased residential construction to local communities.*

4. *Work with the housing construction industry to identify areas for potential reform.*

5. *Work with the financial sector to encourage innovative solutions to increase financing for residential construction, including multifamily and non-traditional housing types.*

6. *Discourage and limit enactment of local growth and price/rent control measures.*

7. *Promote alternative construction technologies to reduce housing costs.*

8. *Explore alternative tax structures and policy which would result in greater benefits to local government for housing production.*

9. *Increase the willingness of localities to approve new housing developments to meet the growing demands of a healthy economy.*

10. *Develop partnerships with local governments and businesses on educational programs to assist first-time homebuyers.*

Silicon Valley Employment Booms, Housing Market Tight

The Silicon Valley (centered in northern Santa Clara County), the nation's high-technology capital and a leading export center, is projected to add an additional 70,000 new jobs by 1999. Santa Clara County was spared the high rates of unemployment that impacted other California counties during the recession of the early 1990s, and by April 1996, the County unemployment rate was only 4.7%. During 1995 alone, Santa Clara County added 42,400 additional jobs (equivalent to 26,250 households).

New employees for this job growth face a tight housing supply, however. Rental vacancy rates in recent months in Silicon Valley communities include: Palo Alto 1.2%, Mountain View 1.52%, Santa Clara 1.04%, Sunnyvale 1.32%, Cupertino .9%, San Jose 1.5%, and Menlo Park 1.5%. In response to the limited supply and increased demand for rental units, average rents in Santa Clara County in April 1996 rose 10 percent over the previous year. San Jose's median home sales price as of August 1996 was $215,000, compared with $180,830 for California.

The housing shortage in Santa Clara County forces residents to devote a larger percentage of their paychecks for housing costs. Workers unable or unwilling to pay these costs incur a "commuting cost," which is also borne by residents and jurisdictions beyond the immediate region.

Sources: California Association of REALTORS; Transamerica's MetroScan real estate service.

Finding 2:

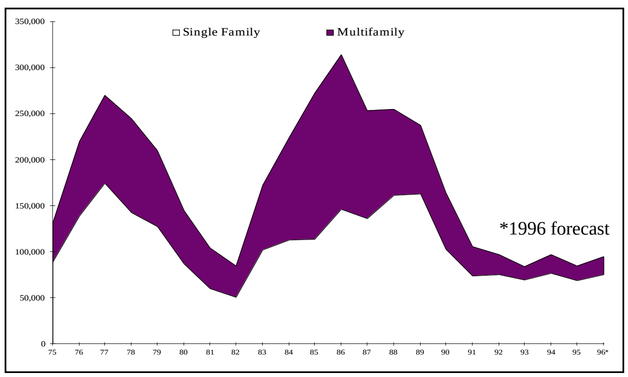
California's housing supply is inadequate relative to demand and too expensive for too many residents.

Housing Shortage Reduces Affordability

California's new housing production in the first six years of this decade is the lowest in post-World War II history. From 1978 through 1991, California's housing starts averaged 13 percent of total US housing starts. Since 1992, California's starts have averaged less than 7 percent of the US total. Residential construction is still lagging, while the State's population, employment, and income growth measures have been rebounding. Ten years ago — in 1986, California produced more than 300,000 units. The Construction Industry Research Board's most recent forecast is for only 94,500 units in 1996. The current level of residential permit activity is lower than the 97,000 units permitted in 1992 or 1994, and is only 9,800 units more than the 1993 low point of 84,700 units.

This low production is not merely a recent phenomenon — a shortage of housing supply relative to demand has been accumulating since the late 1970s.[4] In the 1980s, the rate of new housing construction failed to keep pace with the growth in new households. While new units were being added at a rate of one unit for every 1.5 new residents nationally, California was constructing only one unit for every two residents. Although there was a four percent increase in the annual household formation rate, six percent fewer units were built than in the prior decade. The dramatic decline in multifamily production since the late 1980s, as illustrated below, has hammered the State's production volume, but the single-family sector has also dropped significantly.

California Residential Construction Permits
1975-1996



Source: Construction Industry Research Board of California, California Construction Review, October 30, 1996.

The housing shortage resulted in sustained and steep housing price escalation, followed by market corrections in the early 1990s. From 1990-1995, for example, there was only one new housing start per 6-7 new residents in Los Angeles County, and only one per every 7-8 new residents in San Mateo County. While twenty percent of the State's population growth during this period occurred in Los Angeles County, the county's jurisdictions had only 12 percent of the new housing starts statewide.

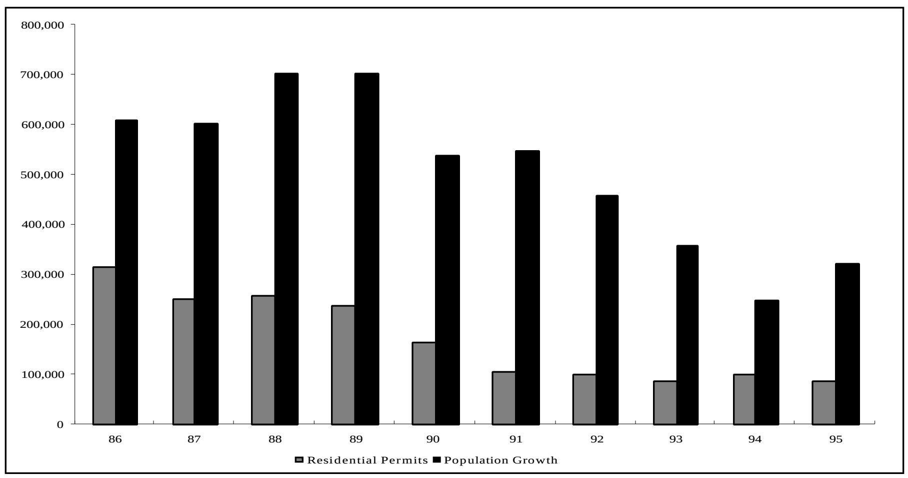
The State's recent economic growth and demographics would support annual construction levels of at least 150,000 to 200,000 housing units. Unmet demand from earlier years, coupled with replacement needs, warrants significantly higher levels of housing production than 200,000 units annually. As of the early 1990s, for example, an estimated housing shortage already contributed to over 150,000 units of unmet demand. The amount of residential construction has been and remains well below the implicit construction need levels, however.

The magnitude of pent-up demand is expected to check further declines in home values and prices. However, this latent demand, coupled with new demand from expanding employment, population, and income growth, poses a risk of sharp housing price increases.

On the basis of the first nine months of 1996 activity, the California Association of Realtors (CAR) has projected strong increases in the rate of single-family home sales for 1996 and 1997, including the reemergence of the move-up market. Home values in portions of the San Francisco Bay area in particular, are surging. As the majority of new housing sales activity is dependent on move-up buyers, rebounding consumer confidence in this market segment is expected to fuel new housing demand.

Even in areas where the volume of new housing units has approached the forecast quantity of demand, the product mix has failed to accommodate the needs of all income levels. High fee and development cost burdens have often resulted in oversupplied higher price housing categories, while other market segments have often gone unaddressed. In the 1980s, metropolitan

Residential Permits and Population Growth 1990-1995



Source: Construction Industry Research Board of California, California Construction Review, October 30, 1996; DOF Population E-5 Report areas which experienced the greatest increases in housing prices were the most populous coastal areas and those where housing growth lagged behind job growth — Orange County, San Francisco, San Jose, and Los Angeles. In contrast, inland metropolitan areas where housing production kept better pace with job growth had more stable housing prices.[5] Fiscal motives have prompted communities to pursue jobs and sales tax-generating uses, but too few have been concerned with housing the employees.

As a result of past housing cost and income trends, housing affordability has become a major problem in California. More than two million households have unaffordable housing costs. Sales prices and rents rose faster than incomes for much of the last two decades. From 1970 to 1990, median home values rose by 746 percent, and rents by 392 percent, compared to a 285 percent increase in household incomes. Although prices have fallen since 1990, the ratio of prices to incomes today is nearly twice what it was in 1970. Despite several years of declining values in California, the 1995 median sales price of an existing home was $178,160 in California, compared to $112,900 for the U.S.[6]

Land costs account for a significant share of the high housing costs. The Urban Land Institute has conducted a periodic survey of residential lot prices in 30 US metropolitan areas since 1975, with California representation from the San Jose and San Diego metro areas. According to their 1995 survey, these California metro areas were among five areas nationally with lot prices more than 1.5 times the average of the other areas. San Jose's 1995 lot cost (for a 10,000 square-foot lot) of $200,000, and San Diego's average of $95,000 compared with $86,000 in Seattle and $50,000 in Portland, despite price drops in both San Jose and San Diego since 1990.[7] These costs underscore the importance of using buildable sites efficiently.

Disparity between what buyers can afford and what builders can afford to build in the State's major population and employment centers has the potential to thwart new job development in the long term. It is imperative that the State's residential construction industry be able to accommodate the more than 6 million new residents projected over the next decade. As the majority of the State's new employment is projected to occur within the Los Angeles and San Francisco Bay areas, increasing housing supply in these regions will be especially critical.

Ten principles to increase the availability and affordability of housing in California

1. *Recognize and support the private sector's primary role in meeting housing needs and demand.*

2. *Assist local governments in combatting NIMBY (Not-In-My-Backyard) resistance to residential development.*

3. *Preserve and improve the existing housing stock as an efficient component in meeting housing demand.*

4. *Encourage innovative housing solutions recognizing the varied needs and demands of a diverse population.*

5. *Increase the development of multifamily housing as a way to address affordability and land use constraints.*

6. *Increase the availability of financing capital.*

7. *Promote the expansion and acceptance of manufactured housing as a means of maintaining a broad*

range of housing stock.

8. *Explore alternative tax structures and policies that promote housing development.*

9. *Alleviate litigation risk associated with construction of attached housing.*

10. *Explore solutions to address the needs of unserved and underserved families.*

Ballot Box Planning

Political factors also restrict market demand forces, contributing to the shortfall of future housing supply. Too often, citizens fail to recognize the consequences of abdicated responsibility for accommodating the State's economic and population growth. Even communities which have appropriately planned for growth are vulnerable to the "Not-In-My-Back-Yard" reaction. A frequent response to growth pressures is for residents to place growth control initiatives on the ballot. As in the following example, reduction in permitted residential densities is among the most common means used to curtail population growth.

The city of Roseville, a Placer County community of 60,000 residents, recently faced such an effort. Located along a growth corridor within the Sacramento metropolitan area, Roseville is home to some of the State's growing computer manufacturers, including Hewlett Packard and NEC Electronics. The City had updated its long-term land use plans to accommodate the growth of its industries and housing sectors, including a popular new retirement community.

A citizen's initiative on the November 1996 ballot, Measure K, would have required voter approval of certain rezoning applications. It also proposed to reduce the number of dwelling units per acre by approximately one-half and required traffic levels of service to be maintained at level "C."

Asked about the probable effect of such a local initiative, a member of the State's legislative staff who has studied the State's growth management issues responded that if people are staying there, moving there, or retiring there – "you either create a housing shortage, raise the prices or cause spill over impacts on neighboring cities... It (the initiative) can protect the local community at the expense of the larger region."[1]

A City staff analysis concluded that Measure K would have displaced development to other nearby communities. Although the measure's intent was to restrain traffic, Measure K would have increased traffic on the City's roadways and restricted the City's options to address increased traffic. A study commissioned by opponents of the proposed measure found the growth control initiative would fundamentally dampen the City's economic climate, costing thousands of jobs and reducing City revenues.

As recognized by the Roseville voters who soundly defeated Measure K, local growth control initiatives do not shield communities from the impacts of development. Even if a locality controls residential densities within its boundaries, it cannot control the traffic, population, housing and employment growth of the surrounding area.

As local political resistance to growth increases, uncertainty over development heightens. Even when such measures are not enacted, they heighten the uncertainty of the investment climate for business, as well as for developers. Such uncertainty is factored into the cost of development capital sought for the area. Builders may be held to lower densities or be prevented from constructing their project at all. With these added risks, the cost of all development increases.

As the State's population and employment opportunities grow, the number of local growth control initiatives is likely to increase as well. The proliferation of these initiatives threatens regional economies and the entire State.

[1] "Searching for limits to growth, Measures would slow pace," The Sacramento Bee, October 27, 1996, pages A1 & A26.11

Finding 3:

Onerous and unnecessary regulations impede the development of an adequate and affordable supply of housing for Californians.

Too Many Regulations, Too Little Housing

The housing industry is among the most regulated industries, and California is among the states with the most complex regulations. Almost every decision by a builder to provide new housing requires a highly detailed and complex set of reviews and discretionary approvals, frequently by several different agencies and even several levels of government. The extent, types, and processing times of regulations imposed on housing development and operation has had a detrimental effect on the availability and affordability of housing in California.

Land use plans and development standards determine the location, amount, and type of housing that can be built. They may also dictate when, and at what cost, new housing projects can be provided. Other regulations determine the manner in which housing is to be maintained and to who, and under what conditions, housing can be sold or rented. Most regulations are enacted with good intentions. However, excessive regulations that are enacted without consideration to potential housing impacts can negatively affect housing by:

- Directly increasing the cost of building, developing, or otherwise providing housing;
- Limiting the overall amount of development through limitations on land supply or direct or indirect growth controls;
- Adding to the complexity and uncertainty of the approval process, which can at best delay development, and at worst, lead to the loss of a

Expanding housing options: Manufactured Housing

Overzealous Regulations Render Housing Infeasible

Too often overzealous implementation of environmental regulations unnecessarily delay or prevent needed residential development. In one typical example, a project was delayed more than 5 years and ultimately rendered economically infeasible because of requirements related to the Endangered Species Act and Wetlands Protection.

The project was planned on a 165-acre site in an area planned and zoned for urban development (homes, apartments, and offices), close to shopping and with adequate roads and public facilities. Unfortunately, the 165-acre site also contained an approximately 5-acre "wetland" that was dry for nine months of the year and home to a four-inch plant species and two shrimp species. While the project developer agreed to set aside a 48-acre preserve (30 percent of the site) as permanent open space and to avoid 97 percent of the rare plant species on the site, preserve the wetland plus a 50-foot buffer, as well as acquire and protect an additional 70-acre off-site wetlands parcel, government regulators wanted 50-80 percent of the site, protection of 100 percent of the plant habitat, and no less than 200 feet of buffer around the wetland. Regulators also indicated the 70-acre off-site wetland was not big enough.

The cost of such an unbalanced approach to environmental protection: more than 5 years of project delays and approximately $7.1 million in additional development costs. The additional per unit costs of approximately $10,000 rendered the project infeasible and resulted in the loss of much needed affordable homeownership opportunities.

Source: "The Truth about Regulations and the Cost of Housing," National Association of Home Builders.

proposed housing project. Delays further increase housing costs as developers incur additional interest expense.

Complex regulations and uncertain outcomes result in higher housing costs. In high demand markets with high land costs, low maximum densities and large minimum lot size requirements restrict supply and further drive up land costs. Design standards such as excessive parking standards, or mandated use of expensive materials, such as tile roofs, can add thousands of dollars to the per unit costs of development. These and other layers of regulations increase the housing costs, pushing potential buyers out of the market, imposing excessive cost burdens on renters, slowing new home construction and dampening state and local economies. A recent study by the National Association of Home Builders found that excessive and unnecessary regulation imposed by all levels of government can add 20 to 35 percent, or thousands of dollars, to the cost of a new home. As little as a $1,000 increase in the purchase price of a median-priced home can force more than 21,000 potential buyers out of the market nationwide.

Less direct, but perhaps more significant in their cost impacts, are regulations that limit the overall supply of new housing. For example, more than 50 cities and counties impose direct limits on the number of units that can be approved annually. Other forms of growth control, while less explicit, are quite prevalent and take the form of limits on the amount of residential land available for development, height or density limitations, and complex infrastructure requirements that meter growth. When the majority of residential development opportunities is constrained by such limitations, unmet demand can quickly push up housing prices to unaffordable levels.

Land use regulations also deter or increase development costs through complex, time-consuming approval processes. Historically, homebuilders could purchase land already zoned for residential development and proceed quickly through the approval of subdivision and building plans. Because some communities' general plans do not provide for sufficient growth, increasingly developers must now seek a general plan amendment or rezoning prior to beginning the development process.

In addition, extensive environmental reviews — mandatory at some level for every project in California — add time and expense. Many projects require the review and approval of high levels of government, such as State or federal wildlife agencies. The complexity clearly adds time to the development process. However, the impact on housing of the approval process is more pernicious because of the high degree of uncertainty it creates for residential development. A landowner or would-be homebuilder can no longer rely on a general plan designation in making investment decisions.

At best, California's residential permit approval process typically results in a reduced level of development. Density reductions are prevalent in the permitting process. A study of San Francisco Bay Area development found that most projects were not approved at the density for which the site was zoned, and nearly a quarter of all projects were built at less than half the allowed capacity.[8] At worst, approval processes requiring discretionary decisions by local government opens a project up to NIMBY (not-in-my-backyard) opposition which can cause denial of a new housing project despite consistency with a general plan. According to a survey of San Francisco Bay Area non-profit housing developers, costs associated with fighting local resistance to affordable housing development projects averaged five percent of the overall project cost (approximately $4,800 per unit).[9]

While all housing development suffers from the negative impact of excessive regulations, affordable housing suffers most dramatically. Certain types of housing which more readily accommodate affordability, such as apartments or manufactured housing, are often subject to specific regulations or prohibitions. Government-assisted housing often suffers more public scrutiny or bias. At times, the approval process can be abused to delay, add costs to, or stop a proposed project. As the impact of regulations drive up development costs of government-assisted housing, the amount of public funds directed to each unit increases, thus diminishing the number of households that can be assisted with public funds.

Addressing California's need for affordable housing must include a strategy for reducing the excessive regulations that add to the cost of all housing. As the private sector effectively provides housing for most Californians, streamlining land use and development regulations can enable the private sector to extend its abilities even further. Regulatory reform is also a low-cost housing strategy. And to the extent that public resources are directed to the provision of affordable housing, regulatory reforms will increase the benefit of public investments by lowering the cost of housing development.

Ten principles to remove impediments to housing construction

1. *Reform the residential approval process to achieve a predictable, fair and short decision process.*

2. *Enforce existing statutes that limit collection of impact fees until the date of actual fiscal impact (date of final inspection or certificate of occupancy).*

3. *Use the Housing Element as the State's tool to remove and mitigate regulatory barriers.*

4. *Provide incentives to local governments to remove regulatory barriers.*

5. *Explore benefits of requiring a "Housing Impact Analysis" before any governmental agency increases regulatory barriers to affordable housing.*

6. *Promote balanced environmental policies and regulations that acknowledge the need for housing and jobs as well as the need to protect and enhance California's natural resources.*

7. *Encourage the use of the most modern and cost-effective technology and materials and reduce "gold-plated" standards for housing construction and rehabilitation.*

8. *Reduce local land use, zoning and building impediments to innovative housing types and designs.*

9. *Explore options for more effective implementation of existing planning and zoning laws to facilitate housing construction.*

10. *Explore alternative funding options to reduce the extent of impact fees.*

Housing is so expensive that many of our children can't afford to live in homes as good as those they grew up in.

~Governor Pete Wilson

June 12, 1993

Finding 4:

California needs to provide adequate infrastructure for future housing development and to improve the quality of life for all Californians.

Bridging the Infrastructure Funding Gap

One of the weightiest issues facing all levels of government is how to provide and pay for infrastructure — roads, sewers, water, schools. This challenges the basic issues of limited resources and fairness. It also makes us look closely at priorities and trade offs. California needs adequate infrastructure to accommodate future homes and to sustain the quality of life for those who already call this State home.

The inability of infrastructure to keep pace with a growing demand is a primary cause of the "no-growth" sentiment prevalent in local communities. The infrastructure needs of the State are not "caused" by housing. A healthy and expanding economy must include investment and maintenance in its infrastructure system. New growth is paying the substantial share of new improvements through impact fees and additional assessments. This funding mechanism not only increases housing costs, it is inefficient and does not address the need for maintenance and improvements to existing facilities, nor does it address regional and statewide needs.

Approximately five percent of the State budget is spent on capital improvements, with most of that money going to pay debt service on bonds used to finance improvements. Thirty years ago, twenty percent of the State budget was spent on infrastructure, most of the funds going to actual construction. On a per capita basis, California's spending has declined and is among the lowest in the nation.

The State Department of Finance (DOF) reports that State agencies have identified $80.4 billion worth of capital improvements that will be needed over the next 10 years. Considering all possible funding sources and levels of commitment, the conclusion reached by DOF is that there is still a balance of at least $26.7 billion in unfunded infrastructure demand, according to DOF's Capital Outlay and Infrastructure Report 1996. These figures assume additional bonds will be issued.

More Bumps in the Infrastructure Road

With the passage of Proposition 218, even greater limits are placed on the ability of local government to finance community needs through broader-based funding mechanisms such as assessment districts. The result of restricting assessment-based financing will be upward pressure on fees from new development to fill the gap. Local measures to secure funding for infrastructure needs are now in further jeapardy, and a cloud of uncertainty looms as the ambiguities of the new law will likely spur legal challenges and legislative corrections.

In 1994, Governor Wilson approved the creation of the State Infrastructure Bank, but to date there is no funding source. The Administration sponsored a bill (AB 3352) in 1996 to put a $100 million general obligation bond measure on the ballot. This money would be used to leverage significantly larger investments. Unfortunately, the bill did not make it out of the legislature. It is also clear that despite concerns among Californians about the condition of the State's schools, roads, water and sewer systems, voters have been unwilling to approve the necessary funds, nor has the Legislature addressed this financing need. This leaves the State with a growing problem.

Although most agee that new development should pay *a share* of necessary infrastructure to meet new demands, the amount and reach of such fees are having an increasingly detrimental impact on housing costs. The disproportionate contribution toward infrastructure from new housing is inequitable.

Local and State agencies and the private sector must work as partners to find solutions to this funding problem.

Ten principles toward meeting California's infrastructure needs

1. *Recognize infrastructure as key to economic development.*

2. *Increase funding and priority for State infrastructure projects.*

3. *Explore options for funding the State Infrastructure Bank.*

4. *Seek equitable tax polices at the State and local level to allow communities to provide for infrastructure, such as a simple majority vote for school bonds.*

5. *Comprehensively assess the priorities of a community to determine what level of infrastructure is needed and at what cost.*

6. *Determine the relative competitiveness of California's tax structure and spending on infrastructure.*

7. *Identify the types of infrastructure to facilitate the growth of California's new economy.*

8. *Work to ensure the provision of necessary infrastructure to serve growing communities.*

9. *Reward local communities' planning for adequate housing by contributing toward their infrastructure projects.*

10. *Promote multiple use facilities to achieve fiscal savings and nurture a community identity.*

Finding 5:

Too many Californians are locked out of the American Dream of homeownership.

Affordability Opens the Door to Homeownership

The majority of Californians still aspire to the "American Dream" of homeownership. Recent nationwide surveys find approximately 86 percent of Americans believe they are better off owning their home. Unfortunately, in California, too many families are locked out of that dream.

California has among the lowest homeownership rates of any state in the country — only 56 percent of all housing is owner occupied, compared to a national rate of 65.6 percent. Several factors have driven up the cost of housing: decades of strong population growth unmatched by adequate housing construction, limitations on providing the infrastructure necessary to support new residential development, and an onerous regulatory environment. These high costs coupled with a lack of low-cost housing options have left too many Californians unable to afford their own home.

In the 1990s, flat home prices, the lowest interest rates for housing mortgages in three decades, and the creativity of the private financial market have expanded opportunities for first-time homebuyers. The State's high home prices, however, still prevent many from either qualifying for a mortgage or meeting down payment requirements.

In 1996, the median priced home in California had dropped to less than $184,000; compared to $200,500 in 1992. Even so, according to the California Association of Realtors, only 37 percent of California's households can afford to buy a home. The monthly payments combined with the necessary down

"Homeownership is the cornerstone of the American Dream."
—Governor Wilson

payment price the majority of renters out of the first-time home buying market. In 1991, a U.S. Census Bureau survey found that 57 percent of renters who could afford monthly mortgage payments had insufficient savings to make even a 5 percent down payment. The high cost of California's housing still presents both a threshold and a monthly affordability barrier to many would-be buyers.

Homeownership provides both public and private benefits. Home equity is the largest source of wealth for most Californians. According to the U.S. Department of Housing and Urban Development, the median net wealth for renters is only about 3 percent of the median net wealth for homeowners. Among homeowners, about 60 percent of their wealth consists of home equity.

Even among low-income homeowners, home equity comprises over half their wealth. Through homeownership, a family gains both a place to live, an investment, and financial security. The public benefits of homeownership have long been recognized. Neighborhoods with a high proportion of owner-occupied units are more economically stable and better maintained than neighborhoods with a high proportion of investor-owned units. Homeownership also generates jobs and stimulates economic growth. Housing construction and repair generate jobs and further stimulate the economy.

To increase homeownership in California, efforts must be made to reduce the cost of home building. California must also address two basic affordability problems: the inability of potential homeowners to afford mortgage and other monthly housing payments, and the lack of sufficient savings to make a down payment.

Ten principles to increase opportunities for homeownership in California

1. *Continue to support existing federal mortgage insurance and guarantee programs as well as the government sponsored secondary mortgage market.*
2. *Reduce barriers to, and increase opportunities for, manufactured housing.*
3. *Support and strengthen the private housing finance system to provide maximum access to homeownership.*
4. *Support private lender initiatives to assist lower income first-time homebuyers.*
5. *Maintain effective federal and state tax incentives for homeownership.*
6. *Support early withdrawal from individual retirement accounts for down payment assistance (without penalties) for first-time homebuyers.*
7. *Promote self-help/sweat equity housing options.*
8. *Continue to focus specific public programs to provide financing assistance to first-time homebuyers.*
9. *Develop solutions that address unique needs of rural and urban areas.*
10. *Ensure adequate access to homeowners insurance in all regions of the State.*

[1] Source of much of the figures and

Manufactured Housing Development

Communities committed to expanding housing opportunities can qualify for the exciting State program that makes homeownership a reality for first-time homebuyers. The program, launched in 1993 by the State Department of Housing and Commmunity Development, is Building Equity and Growth in Neighborhoods, or BEGIN. Through a partnership between State and local governments, developers and lenders, BEGIN provided up to $20,000 in downpayment assistance for low-income working families, allowing them to buy affordable, newly constructed homes. This kind of partnership made Wisteria Homes in Petaluma a reality. the BEGIN Program, Burbank Housing Development Corporation, the City of Petaluma, Bank of the West and California Housing Finance Agency worked together to provide the outstanding affordable homeownership project. BEGIN provided $294,000 to the City which used cost-efficient manufactured housing to develop the 29 brand new single family homes which, include three units with granny flats over the garages.

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